

STATE OF SOUTH CAROLINA

Application by South Carolina Generating Company, Inc. for
Authority to Enter into a Note Agreement to Defray the
Cost of Certain Capital Expenditures

**BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

COVER SHEET

DOCKET

NUMBER: 2008 - ____ - E

(Please type or print)

Submitted by: K. Chad Burgess

SC Bar Number: 69456

Address: SCANA Corp.

Telephone: 803-217-8141

1426 Main Street MC 130

Fax: 803-217-7931

Columbia, SC 29201

Other: _____

Email: chad.burgess@scana.com

NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

- ☐ **Emergency Relief demanded in petition** ☐ **Request for item to be placed on Commission's Agenda expeditiously**
- ☐ **Other:** _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input checked="" type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	

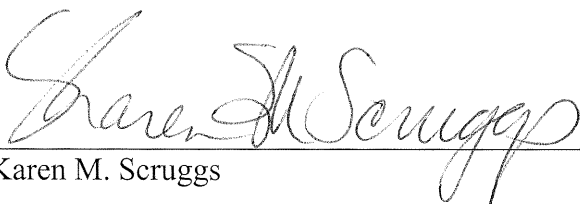
BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-____-E

IN RE:

Application by South Carolina Generating)	
Company, Inc. for Authority to Enter into)	
A Note Agreement to Defray the Cost of)	CERTIFICATE
Certain Capital Expenditures)	OF SERVICE
_____)	

This is the certify that I have caused to be served this day one (1) copy of South Carolina Electric & Gas Company's **Application** via U.S. mail to the persons named below at the address set forth:

Shannon Bowyer Hudson, Esquire
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201



Karen M. Scruggs

Columbia, South Carolina
This 21st day of April 2008



K. Chad Burgess
Senior Counsel

chad.burgess@scana.com

April 21, 2008

VIA ELECTRONIC FILING

The Honorable Charles Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29211

RE: Application by South Carolina Generating Company, Inc. for Authority to Enter
into a Note Agreement to Defray the Cost of Certain Capital Expenditures

Dear Mr. Terreni:

Enclosed for filing on behalf of South Carolina Generating Company, Inc. ("GENCO") is GENCO's Application for Issuance of Debt. Additionally, you will find enclosed a proposed order for your consideration.

By copy of this letter, we are also serving the South Carolina Office of Regulatory Staff with a copy of the enclosed Application and attach a certificate of service to that effect.

If you have any questions, please advise.

Very truly yours,

K. Chad Burgess

KCB/kms
Enclosures

cc: Shannon Bowyer Hudson, Esquire
(w/enclosures)

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 2008-____-E

IN RE: APPLICATION BY SOUTH CAROLINA)	APPLICATION FOR
GENERATING COMPANY, INC. FOR AUTHORITY)	INCURRENCE OF DEBT
TO ENTER INTO A NOTE AGREEMENT TO)	
DEFRAY THE COST OF CERTAIN CAPITAL)	
EXPENDITURES)	
)	

1. INTRODUCTION

South Carolina Generating Company, Inc. ("GENCO"), a corporation organized under the laws of South Carolina, hereby makes application pursuant to §58-27-1710, S.C. Code of Laws (1976) as amended and 26 S.C. Code of Reg. 103-823 (1976) as amended, to the Public Service Commission of South Carolina (the "Commission") for power and authority to enter into a Note Agreement (the "New Note Agreement") with Prudential Investment Management, Inc. ("Prudential") and other insurance companies (or their affiliates) which may be identified by Prudential or its affiliates (collectively, the "New Note Purchasers") providing for the issuance thereunder from time to time of not exceeding One Hundred Sixty Million Dollars (\$160,000,000) of notes (the "New Notes"), and to enter into modifications, amendments, and extensions from time to time thereto and to the Note Agreement dated as of August 21, 1992 between GENCO and Prudential Life Insurance Company of America, as amended (the "1992 Note Agreement") and the Note Agreement dated as of February 11, 2004 between GENCO and Prudential Life Insurance Company of America and the other insurance company purchasers named therein (the "2004 Note Agreement," and together with the 1992 Note Agreement, the "Existing Note Agreements") in connection therewith. The net proceeds from the sale of the

New Notes, together with internally generated funds and the proceeds of tax-exempt revenue bonds of the South Carolina Jobs-Economic Development Authority expected to be loaned to GENCO (the "Bond Loan"),¹ will be applied to finance the cost of additional construction expenditures in the amount of approximately \$140.4 million and to repay advances for such purposes aggregating approximately \$58.4 million at February 29, 2008. Such advances were made by SCANA Corporation, a South Carolina corporation ("SCANA") through the utility money pool ("Utility Money Pool"), subject to the applicable limits on short-term borrowings authorized by Order of the Federal Energy Regulatory Commission. In support of this Application, GENCO would respectfully show unto this Commission the following key facts and would request of and apply to the Commission for the following relief:

2. CORRESPONDENCE

Correspondence with respect to this Application should be addressed to the following persons:

Mark R. Cannon *
RMO & Treasurer
SCANA Corporation
Columbia, South Carolina 29218
(803) 217-7838
mcannon@scana.com

Catherine D. Taylor *
Assistant General Counsel
South Carolina Generating Company, Inc.
Columbia, South Carolina 29218
(803) 217-9356
cdtaylor@scana.com

Frank Mood *
General Counsel
SCANA Corporation
Columbia, South Carolina 29218
(803) 217-8634
fmood@scana.com

K. Chad Burgess *
Senior Counsel
South Carolina Generating Company, Inc.
Columbia, South Carolina 29218
(803) 217-8141
chad.burgess@scana.com

* Persons for service.

¹ GENCO expects to apply to the Commission for authorizations to incur the Bond Loan at a later date.

3. BUSINESS

GENCO is a wholly-owned subsidiary of SCANA and an affiliate of South Carolina Electric & Gas Company ("SCE&G"). SCE&G is an electric utility operating in the State of South Carolina, serving the central, southern and southwestern portions of the State with electric service and it also delivers natural gas service throughout its service territory which encompasses all or part of 35 of the 46 counties in South Carolina and covers more than 23,000 square miles. GENCO owns the Arthur M. Williams generating station (the "Plant"). Pursuant to a Unit Power Sales Agreement, SCE&G purchases from GENCO all of the power generated by the Plant. In Docket No. 92-391-E and Docket No. 2003-355-E, the Commission authorized GENCO to enter into the Existing Note Agreements to refinance certain existing long-term debt and finance additional construction expenditures. The principal amount currently outstanding under the Existing Note Agreements is \$119.3 million.

4. ADDITIONAL CONSTRUCTION EXPENDITURES

GENCO proposes to borrow under the New Note Agreement a principal amount not exceeding \$160 million to defray a portion of the cost of construction and installation of flue gas desulfurization equipment (a wet scrubber) and certain other equipment at the Plant (the "Pollution Control Facilities"). The Pollution Control Facilities will be capable of reducing sulfur dioxide ("SO₂") emissions at the Plant by at least 95%. As a result of the Clean Air Act of 1990 and the subsequent Clean Air Interstate Rule of 2005, the Environmental Protection Agency and the South Carolina Department of Health and Environmental Control ("DHEC") required the reduction of SO₂ emissions from coal-fired generating facilities. The State Implementation Plan developed by DHEC to address this requirement limits the annual number of SO₂ tons that may be emitted. GENCO has elected for economic reasons to construct a wet

scrubber to meet its compliance requirements. GENCO's capital expenditures for SO₂ reduction and other environmental expenditures, in 2004 and through 2007 have totaled approximately \$69.6 million, substantially all of which expenditures have been funded through advances from SCANA through the Utility Money Pool, from amounts funded under the 2004 Note Agreement and from operating revenues of GENCO. From January 1, 2008 through December 31, 2011, GENCO expects to spend an additional \$196.3 million in environmental capital expenditures.

5. STRUCTURE OF THE TRANSACTION

The proposed transaction is intended to provide permanent financing for a portion of the cost of the Pollution Control Facilities and to reimburse the Utility Money Pool for amounts previously advanced to GENCO for such construction costs. The structure of the transaction will be substantially similar to the structure of the Existing Note Agreements and will maintain the same relationships among SCE&G, GENCO, SCANA and the holders of the Notes issued and outstanding under the Existing Note Agreements (the "Existing Note Holders") as currently found under the Existing Note Agreements.

A. New Note Agreement and New Notes

The proposed New Note Agreement will provide for the issuance thereunder from time to time of New Notes having a maturity of up to twenty (20) years bearing interest at the United States Treasury rate corresponding to the weighted average life of the New Notes plus an indicative spread ranging from 220 to 300 basis points (2.20% to 3.00%) per annum, depending upon the weighted average life of the New Notes as negotiated by the New Note Purchasers and GENCO at or about the time of issuance of the New Notes, with quarterly or semiannual interest payments and amortization of the principal in amounts to be negotiated. For the purposes of the

pro forma presentation in Exhibit A, the interest rate of the New Notes has been assumed to be 6.25% (which assumes a ten-year weighted average life).

B. The Mortgage and Security Agreement

The New Note Agreement and the New Notes will be secured by a mortgage lien on the Plant, including the Pollution Control Facilities, through an amendment or restatement of the Amended and Restated Mortgage and Security Agreement dated as of February 11, 2004 between GENCO and The Bank of New York Trust Company, N.A., as collateral agent (the "Collateral Agent"), on a parity with the mortgage lien and security interest securing the Existing Note Agreements and the Existing Notes. The New Notes shall be *pari passu* with amounts outstanding under the Existing Note Agreement and will not be structurally subordinated to any other indebtedness, including the outstanding balance under the Existing Note Agreements.

C. The Inducement Letter

As was previously executed in connection with the Existing Note Agreements and in recognition of the fact that SCE&G would benefit from the long-term financing of the Plant, which SCE&G operates for GENCO under the Operating Agreement and from which SCE&G purchases all of its electric power output through a Unit Power Sales Agreement, SCE&G would enter into an Inducement Letter with the New Note Purchasers, or an agent therefor, stating, among other things, that it will maintain for the term of the New Notes the Unit Power Sales Agreement and the Operating Agreement.

D. The Title Indemnity Agreement

SCE&G would enter into a Title Indemnity Agreement in favor of the New Note Purchasers, or an agent therefor, or amend or restate the existing Indemnity Agreements, dated as of August 21, 1992 and February 11, 2004 between SCE&G and the Existing Note Holders, that

essentially provides to the Existing Note Holders the benefit of SCE&G's existing obligations under its General Warranty Deed of Conveyance of 1984 by which it transferred the Plant to GENCO.

E. The Subordination Agreement

SCANA would enter into a Subordination Agreement in favor of the New Note Holders, or amend or restate the existing Subordination Agreements dated as of August 21, 1992 and February 11, 2004 among SCANA, GENCO and the Existing Note Holders, providing that in certain instances the indebtedness of GENCO to SCANA or other affiliates would be subordinated to GENCO's obligations and indebtedness to the New Note Holders under the New Note Agreement and the outstanding New Notes.

F. SCANA Guarantee

SCANA would also enter into a Guarantee Agreement guaranteeing the obligations of GENCO to the holders of the New Notes if the market conditions deemed it necessary or provide other types of security support as appropriate.

**6. APPLICATION OF PROCEEDS AND COMPLIANCE
WITH PSC ORDER NO. 91-72**

In compliance with the provisions of Order No. 91-72, dated January 18, 1991, Docket No. 91-032-E, GENCO submits the following required information.

- A. Identify the effect on the income statement and balance sheet of the proposed financing.
See Exhibit A to Application with pro forma adjustments.
- B. Identify specifically how the funds obtained through the proposed financing are to be used by GENCO.

The net proceeds from the proposed financing will be applied to defray a portion of the cost of the Pollution Control Facilities and to reimburse prior advances made by SCANA

through the Utility Money Pool to GENCO for such purposes. Such reimbursements are depicted in Exhibit A.

- C. Provide information of the possible impact on GENCO if the proposed financing is not approved or if approval is delayed.

If the proposed financing is not approved or if approval is delayed, GENCO will need to borrow additional interest-bearing advances from the Utility Money Pool and/or receive additional equity advances from SCANA. These funds would be used, in large part, to continue the purchase of SO₂ emission allowances to meet regulatory compliance requirements.

- D. Specify the expected effective rate of interest of any debt financing (a range for the rate is appropriate). For common stock issues, provide information on the anticipated market price and book value per share at the time of issue.

The interest rate on the New Notes is not expected to exceed 7.00%. For purposes of the pro forma financial statements presented in Exhibit A, the rate has been assumed to be 6.25%.

- E. Provide information on the expected benefits (example – savings expected from early debt retirement) and costs (example – issuance expenses) of the proposed financing.

Provide any studies that were developed to identify these costs and benefits and the net result. (This could incorporate present value analysis of the costs/benefits.)

Identify the basic assumptions of any analyses of costs/benefits.

As a result of the account-based, formula-driven structure of GENCO's rates charged to SCE&G under the Unit Power Sales Agreement, long-term borrowings (such as the transaction contemplated in this Application) have a more favorable impact on ratepayers

than do equity advances from SCANA. The total expenses of the proposed financing, including lender's fee, are estimated not to exceed 0.5% of the principal amount of the New Notes to be issued.

- F. Identify the impact on the firm's capital structure of the proposed new financing.

See Exhibit A to the Application with pro forma adjustments.

7. FINANCIAL CONDITION

Attached hereto as Exhibit A and made a part hereof is a Balance Sheet of GENCO as of December 31, 2007, and Statement of Income of GENCO for the twelve-months ended December 31, 2007, together with pro forma adjustments identifying the effect of the proposed financing.

WHEREFORE, GENCO prays that the Commission:

(1) Grant GENCO a Certificate of Authority stating (a) that the issuance of one hundred sixty million dollars (\$160,000,000) of New Notes is reasonably necessary to the financing of the construction herein described, and (b) that the value of the Pollution Control Facilities will be equal to or in excess of the amount of loan proceeds to be applied for that purpose and that the value of the Pollution Control Facilities to be financed will be equal to or in excess of the amount of the loan proceeds to be applied.

(2) Authorize and empower GENCO to negotiate the terms of the transaction as described herein including, but not limited to, the terms of the New Note Agreement, and to make such changes in the instruments and to negotiate and to enter into other related or supplemental agreements as are reasonably necessary, to consummate the transactions described herein or hereafter to maintain or preserve such transactions, and to enter into any modifications, amendments and extensions thereto. GENCO proposes to file with

the Commission conformed copies of the instruments (and any amendments, modifications and extensions thereto) in the final forms in which they are executed.


(3) Authorize and empower GENCO to execute and deliver the New Note Agreement and related instruments and any modifications, amendments, and extensions from time to time thereto.

(4) Authorize and empower GENCO to execute and deliver any amendments, modifications, and extensions to the Existing Note Agreements and related instruments as may be necessary in connection with the issuance of the New Notes.


(5) Grant such other and further relief as may be appropriate in the circumstances.

SOUTH CAROLINA GENERATING
COMPANY, INC.

[SEAL]

By 
Mark R. Cannon
Treasurer


ATTEST:


Gina Champion
Secretary

Columbia, South Carolina
4/18, 2008

STATE OF SOUTH CAROLINA)
)
COUNTY OF RICHLAND)


PERSONALLY APPEARED before me Mark R. Cannon, and Gina Champion, who on oath, say, each for himself or herself, that they are respectively Treasurer and Secretary of South Carolina Generating Company, Inc., GENCO herein, and make this verification on its behalf, that they have read the foregoing and attached Application and that the statements of fact therein are true of their own knowledge, and that as to the opinions expressed herein, they believe them to be true.



Mark R. Cannon



Gina Champion

SWORN TO before me this
18th day of April, 2008


Deborah Simpson-Enlow
Notary Public for South Carolina
My Commission expires February 12, 2011.

EXHIBITS

Exhibit A Pro Forma Financial Statements

South Carolina Generating Company
Pro Forma Consolidated Balance Sheet
December 31, 2007 (unaudited)
(Dollars in thousands)

	Actual December 31, 2007	Adjustments	As Adjusted December 31, 2007
<u>Assets:</u>			
<u>Utility Plant</u>			
Plant in service	\$ 408,454		\$ 408,454
Less: Accumulated Depreciation and Amortization	(156,357)		(156,357)
Total	252,097		252,097
Construction Work in Progress	62,527		62,527
Utility Plant, net	314,623	-	314,623
<u>Current Assets:</u>			
Cash and Temporary Cash Investments	9,648	159,200 (a) (43,900) (d) 39,400 (e)	164,348
Receivables from affiliated company	13,513		13,513
Other accounts receivable	133		133
Inventories:			
Fuel	12,344		12,344
Materials and Supplies	2,571		2,571
Prepayments	663		663
Total Current Assets	38,872	154,700	193,572
Deferred Debits	30,997	800 (a) 600 (e)	32,397
Total	\$ 384,492	\$ 156,100	\$ 540,592
<u>Capitalization and Liabilities:</u>			
<u>Common Equity:</u>			
Common Stock	\$ 20,000		\$ 20,000
Other paid in capital	30,367		30,367
Retained earnings	37,859		37,859
Total Common Equity	88,226	-	88,226
Long-Term Debt, Net	151,341	160,000 (a) 40,000 (e)	351,341
Total Capitalization	239,567	200,000	439,567
<u>Current Liabilities:</u>			
Current portion of long-term debt	3,700		3,700
Accounts payable	17,304		17,304
Due to affiliate	43,900	(43,900) (d)	-
Taxes accrued	3,128		3,128
Interest accrued	1,352		1,352
Dividends declared	1,000		1,000
Other	54		54
Total Current Liabilities	70,438	(43,900)	26,538
<u>Deferred Credits:</u>			
Accumulated deferred investment tax credits	4,227		4,227
Accumulated deferred income taxes	51,805		51,805
Other deferred credits	18,455		18,455
Total Deferred Credits	74,487	-	74,487
Total Capitalization and Liabilities	\$ 384,492	\$ 156,100	\$ 540,592

South Carolina Generating Company
Pro Forma Consolidated Income Statement
December 31, 2007 (unaudited)
(Dollars in thousands)

	Actual December 31, 2007	Adjustments	As Adjusted December 31, 2007
Electric operating revenues	\$ 146,533	\$ (1,221) (h)	\$ 145,312
<u>Operating Expenses</u>			
Fuel Used in Electric Generation	99,062		99,062
Other Operation	8,164		8,164
Maintenance	4,078		4,078
Depreciation and Amortization	10,991		10,991
Other Taxes	5,241		5,241
Total Operating Expenses	127,536	-	127,536
<u>Operating Income</u>	18,997	(1,221)	17,776
<u>Other Income</u>			
AFUDC- equity funds	448		448
Other income (expense)	35		35
Total other income	483	-	483
Income Before Interest Charges	19,481	(1,221)	18,260
<u>Interest Charges</u>			
Interest expense on long-term debt, net	9,027	10,000 (b) 80 (c) 2,100 (f) 20 (g)	21,227
Other Interest Expense	909		909
AFUDC Borrowed Funds	(886)		(886)
Total Interest Charges, Net	9,050	12,200	21,250
Income Before Income Taxes	10,431	(13,421)	(2,990)
Income Taxes	3,030	(3,825) (b) (31) (c) (803) (f) (8) (g) (467) (h)	(2,104)
Net Income	\$ 7,401	\$ (8,287)	\$ (886)

South Carolina Generating Company
Pro Forma Statement of Capitalization
December 31, 2007 (unaudited)
(Dollars in thousands)

	Actual			As Adjusted	
	December 31, 2007	%	Adjustments	December 31, 2007	%
Long-term Debt, net	\$ 155,041	63.73%	\$ 200,000	\$ 355,041	80.10%
Common Stock Equity	88,226	36.27%		88,226	19.90%
	<u>\$ 243,267</u>	<u>100.00%</u>	<u>\$ 200,000</u>	<u>\$ 443,267</u>	<u>100.00%</u>

South Carolina Generating Company
Notes to Pro Forma Financial Statements
December 31, 2007 (unaudited)

- (a) Represents the receipt of cash and increase in long-term debt of \$160 million as a result of the issuance of debt, net of issuance costs of approximately \$800,000.
- (b) Represents the interest expense and the related income tax effects resulting from the issuance of the \$160 million debt described in (a) at 6.25% interest, outstanding for 12 months. Calculations are as follows:

Interest expense on \$160 million note:
 $\$160,000,000 \times 6.25\% =$ \$ 10,000,000

Income tax decrease:
 $\$10,000,000 \times 38.25\% \text{ (composite rate)} =$ \$ 3,825,000

- (c) Represents the amortization over ten years of estimated debt issuance costs of \$800,000 and the related income tax effects resulting from the new debt issuance.

Debt issuance costs
 $\$800,000 / 10 \text{ years} =$ \$ 80,000

Income tax decrease
 $\$40,000 \times 38.25\%$ \$ 30,600

- (d) Represents repayment of \$43.9 million to affiliated company made through the Utility Money Pool as described in the application.
- (e) Represents the receipt of cash and increase in long-term debt of \$40 million as a result of the issuance of pollution control facilities revenue bonds, net of debt issuance costs of \$600,000.
- (f) Represents the interest expense and the related income tax effects resulting from the issuance of the \$40 million pollution control facilities revenue bonds described in (e) at 5.25% interest, outstanding for twelve months. Calculations are as follows:

Interest expense on \$40 million pollution control bonds:
 $\$40,000,000 \times 5.25\% =$ \$ 2,100,000

Income tax decrease:
 $\$2,100,000 \times 38.25\% \text{ (composite rate)} =$ \$ 803,250

- (g) Represents the amortization over thirty years of estimated debt issuance costs of \$600,000 and the related income tax effects resulting from the new debt issuance.

Debt issuance costs
 $\$600,000 / 30 \text{ years} =$ \$ 20,000

Income tax decrease
 $\$20,000 \times 38.25\%$ \$ 7,650

- (h) Represents the reduction in electric operating revenues that would result from the issuance of the long-term debt described in (a) and (e) above. The issuance of debt has the effect of shifting the capital structure of GENCO more heavily toward debt from common equity, which produces a lower cost of capital and capital recovery rate. The revenues earned by GENCO are based in part on the capital recovery rate multiplied by the total net investment of GENCO (which includes plant in service, among other items, but excludes construction work in progress.) As of December 31, 2007 GENCO's capital recovery rate was 0.6025%. The capital recovery rate would be approximately 0.5558% after giving effect to the issuance of debt as contemplated in this application. Therefore, GENCO's revenues are expected to be reduced immediately following the issuance of any new debt until such time as the construction being financed by the debt is completed and transferred into plant in service and total net investment. Such transfers of completed construction would result in increased revenues, which would be expected to restore GENCO to profitability.

Total net investment at December 31, 2007	\$ 217,945,000
Reduction in capital recovery rate (0.6025%- 0.5558%)	0.0467%
Estimated reduction in annual revenues (\$101,780 x 12 months)	\$ 1,221,360
Income tax rate	38.25%
Estimated tax benefit from reduced revenues	\$ 467,170